

**REPORT OF THE AUDIT OF THE
SHELBY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SHELBY COUNTY SHERIFF

**For The Year Ended
December 31, 2005**

Mountjoy & Bressler, LLP has completed the Shelby County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$116,159 from the prior year, resulting in excess fees of \$359,760 as of December 31, 2005. Revenues increased by \$148,286 from the prior year and expenditures increased by \$32,127.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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The Honorable Rob Rothenburger, Shelby County Judge/Executive
Honorable Mike Armstrong, Shelby County Sheriff
Members of the Shelby County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Shelby County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2006, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable Rob Rothenburger, Shelby County Judge/Executive
Honorable Mike Armstrong, Shelby County Sheriff
Members of the Shelby County Fiscal Court

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Shelby County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Mountjoy & Bressler, LLP.

Mountjoy & Bressler, LLP

Audit fieldwork completed -
August 31, 2006

SHELBY COUNTY
 MIKE ARMSTRONG, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Fees For Services:

Finance and Administration Cabinet	\$ 32,585	
Sheriff Security Service	47,246	
House Bill 413	4,923	
Fugitive Transport	5,598	\$ 90,352

Circuit Court Clerk:

Fines and Fees Collected	3,678
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Fiscal Court	620
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County Clerk - Delinquent Taxes	3,330
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Commission On Taxes Collected	649,339
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Fees Collected For Services:

Conveying Fugitives	3,850	
Auto Inspections	14,020	
Tax Penalty Fees	64,455	
Serving Papers	34,550	
Carrying Concealed Deadly Weapon Permits	19,330	136,205

Other:

Fiscal Court Filing Fees Collected	16,060	
Copywork	2,860	
Miscellaneous	12,162	31,082

Interest Earned	33,977
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Borrowed Money:

State Advancement	130,713

Total Revenues	\$ 1,079,296
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The accompanying notes are an integral part of this financial statement.

SHELBY COUNTY
 MIKE ARMSTRONG, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$ 205,637	
Part-Time Salaries	10,000	
Employee Benefits-		
Employer's Share Social Security	20,725	
Employer Paid Health Insurance and Life Insurance	30,032	\$ 266,394
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Contracted Services-	200	
Advertising	5,881	
Vehicle Maintenance and Repairs	17,671	23,752
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Materials and Supplies-		
Office Materials and Supplies	6,200	
Uniforms	13,848	20,048
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Auto Expense-		
Gasoline		64,154
Other Charges-		
Fiscal Court Filing Fees	16,060	
Supplies	8,107	
Training	2,650	
Transport Prisoners	7,338	
Dues	2,937	
Postage	8,981	
CCDW	14,185	
Telephone	6,142	
Miscellaneous	10,069	76,469
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Capital Outlay-		
Office Equipment	1,821	
Vehicles	44,140	
Computer Expense	12,825	
Vehicle Equipment	4,963	63,749
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The accompanying notes are an integral part of this financial statement.

SHELBY COUNTY
MIKE ARMSTRONG, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Expenditures (Continued)

Debt Service:	
State Advancement	<u>\$ 130,713</u>
Total Expenditures	645,279
Net Revenues	\$ 434,017
Less: Statutory Maximum	<u>74,257</u>
Excess Fees	\$ 359,760
Excess Fees Due County for 2005	\$ 359,760
Payments to Fiscal Court	<u>359,760</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ -</u></u>

SHELBY COUNTY
MIKE ARMSTRONG, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SHELBY COUNTY
MIKE ARMSTRONG, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a depository institution's failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed security agreement.

SHELBY COUNTY
MIKE ARMSTRONG, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. D.A.R.E. Account

The Sheriff maintained a DARE account during calendar year 2005. The beginning balance of this account was \$5,603. This account had \$17,671 in receipts and \$13,351 in disbursements. The balance of the DARE account as of December 31, 2005 was \$9,923.

Note 5. Forfeiture Funds

A. Confiscated Drug Fund

The Sheriff used a Confiscated Drug Fund to account for funds seized in drug and other criminal cases which the court system or other law enforcement agencies turned over to the Sheriff. The beginning balance of this account was \$17,802. The account had receipts of \$1,557 and disbursements of \$700 during the calendar year 2005. The balance of the Confiscated Drug Fund as of December 31, 2004 was \$18,659.

B. U.S. Marshal Drug Fund

The Sheriff used a U.S. Marshal Drug Fund to account for funds or property seized in drug cases performed in cooperation with U.S. Marshals. The beginning balance of this account was \$3,282. The account had receipts of \$500 and disbursements of \$3,782. There was a zero balance in the US Marshal Drug Fund account as of December 31, 2005..

Note 6. Shelby County Federal Drug Money

The Sheriff maintained a Federal Drug Money account during calendar year 2005. The beginning balance of this account was \$8,092. This account had \$20 in receipts and zero disbursements. The balance of the Federal Drug Money account as of December 31, 2005 was \$8,112.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Rob Rothenburger, Shelby County Judge/Executive
Honorable Mike Armstrong, Shelby County Sheriff
Members of the Shelby County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Shelby County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated August 31, 2006. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Shelby County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Shelby County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Mountjoy & Bressler, LLP.

Mountjoy & Bressler, LLP

Audit fieldwork completed -
August 31, 2006